Etching a Trade Line to Bond beyond Oil

Why in news?

India has embarked on a new free trade agreement (FTA) journey with renewed zeal and vigour specially prioritizing the UAE.

What is India's approach towards FTAs is now?

- India's approach towards FTAs is now focusing more on gaining meaningful market access and facilitating Indian industry's integration into global value chains.
- Minister of Commerce and Industry Piyush Goyal has emphasized that India would no longer be signing trade agreements just to join a group, but the new approach of FTA negotiations would respond to the need of new emerging dynamics in international trade and the Indian economy.
- Under the revamped FTA strategy, the Government of India has prioritised at least 6 countries or regions to deal with –UAE, United Kingdom, European Union, Australia, Canada, Israel and a group of countries in the Gulf Cooperation Council (GCC).
- The early harvest deal is to be enlarged into a comprehensive FTA in due course of time.
- At the same time, the UAE too announced in 2021, its intent to pursue bilateral economic agreements with 8 countries (India one among them) within one year.

Why UAE is considered as an economic hub?

- The UAE has emerged as an important economic hub not just within the context of the Middle East/West Asia, but also globally.
- **Strategic location**- The UAE, due to its strategic location, has emerged as an important economic centre in the world.
- **Diversification of economy**- The UAE, through its 'Vision 2021', has sought to diversify its economy and reduce its dependency on oil.
- Since 2012, growth has been led by the non-hydrocarbon sectors reflecting the successful diversification of the economy.
- Although the UAE has diversified its economy, 'the hydrocarbon sector remains very important followed by services and manufacturing.

- **Service sector**- Within services, financial services, wholesale and retail trade, and real estate and business services are the main contributors.

How India and the UAE relation evolved?

- **The beginning**- India and the UAE established diplomatic relations in 1972.
- **Strategic partnership**- The visit of the Prime Minister, Narendra Modi to the UAE in August 2015 marked the beginning of a new strategic partnership between the two countries.
- **Comprehensive strategic partnership**- During the visit of the Crown Prince of Abu Dhabi in 2017 as the chief guest at India's Republic Day celebrations, it was agreed that bilateral relations were to be upgraded to a comprehensive strategic partnership.
- **Comprehensive economic partnership**- This gave momentum to launching negotiations for an India-UAE comprehensive economic partnership agreement, eventually launched in 2021.

What about the trade and investment between the two countries?

- The India-UAE total trade merchandise has been valued at 52.76 billion dollars for the first nine months of the fiscal year 2021-22, making the UAE India's third largest trading partner.
- The aim is to boost bilateral merchandise trade to above 100 billion dollars and services trade to 15 billion dollars in five years.
- India is on the verge of creating history by reaching 400 billion dollars of merchandise export.
- India is aiming to achieve the 1 trillion dollar of merchandise exports and 1 trillion dollar of services exports by the year 2030.
- Many Indian companies have set up manufacturing units either as joint ventures or in Special Economic Zones for cement, building materials, textiles, engineering products, consumer electronics, etc.
- Both the UAE and India are aggressively pursuing FTAs with several important countries.

What is the significance of this trade agreement with the UAE?

- A trade agreement with an important country such as the UAE would help sustain the export growth momentum.
- A trade agreement is also an enabler for two-way investment flows.
- The UAE is the ninth biggest investor in India while many Indian companies have also invested in the tourism, hospitality, catering, health,

retail, and education sectors of the UAE.

- As part of the GCC, the UAE has strong economic ties with Saudi Arabia, Kuwait, Bahrain, and Oman, meaning the UAE shares a common market and a customs union with these nations.
- Under the **Greater Arab Free Trade Area (GAFTA) Agreement**, the UAE has free trade access to Arab and African countries.
- This FTA with the UAE will pave the way for India to enter the UAE's strategic location, and have relatively easy access to the Africa market and its various trade partners.
- It can help India to become a part of that supply chain especially in handlooms, handicrafts, textiles and pharma.

What is the way ahead?

- The UAE tariff structure is bound with the GCC, and the applied average tariff rate is 5%.
- Therefore, the scope of addressing Non-Tariff Barriers becomes very important.
- The reflection of NTBs can be seen through Non-Tariff Measures which have mostly been covered by Sanitary and Phytosanitary and Technical Barriers to Trade.
- Notifications related to consumer information, labelling, licensing or permit requirements and import monitoring and surveillance requirements pose a challenge for Indian exporters.
- The FTA agreement must try to bring more transparency and predictability in the use of NTBs so that their compliance becomes less cumbersome.

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/etching-a-trade-line-to-bond-beyond-oil/article65060773.ece

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